

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|---|--------------|--------------------------------------|--------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name | County |
| Fiscal Year End | Opinion Date | Date Audit Report Submitted to State | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|--------------------------|--|----------------|-----|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) | | Telephone Number | | |
| Street Address | | City | State | Zip |
| Authorizing CPA Signature | Printed Name | | License Number | |

HARTLAND DEERFIELD
FIRE AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2007

HARTLAND DEERFIELD FIRE AUTHORITY

AUTHORITY BOARD MEMBERS

Joe Petrucci - Chairperson
Al Mattioli - Vice Chairperson
Bill Fountain - Secretary
Bruce Dehanke - Trustee
Tom Green - Trustee

OTHER AUTHORITY BOARD NON-MEMBERS and (non-voting) INDIVIDUALS

Adam Carroll - Fire Chief
Susan Dryden-Hogan - Treasurer
Jennifer Drew - Assistant Secretary

ATTORNEY

Gentry Law Offices, P.C.

AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
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August 23, 2007

Board of Trustees
Hartland Deerfield Fire Authority
3205 Hartland Road
Hartland, Michigan 48353

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Hartland Deerfield Fire Authority as of and for the year ended March 31, 2007. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hartland Deerfield Fire Authority, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 6 through 9 and pages 29 and 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hartland Deerfield Fire Authority's basic financial statements. The supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis March 31, 2007

Within this section of the Hartland Deerfield Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2007. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has one kind of fund which is a governmental fund.

Governmental funds are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$872,089. This is a \$201,657 decrease over last year's net assets of \$1,073,746.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

| | Governmental Activities | |
|----------------------------------|-------------------------|--------------|
| | 3/31/2007 | 3/31/2006 |
| Current and other assets | \$ 456,110 | \$ 856,846 |
| Capital assets | 859,619 | 989,258 |
| Total assets | 1,315,729 | 1,846,104 |
| Accounts payable | 24,721 | 41,460 |
| Accrued expenses | 47,998 | 169,237 |
| Notes and capital leases payable | 370,921 | 561,661 |
| Total liabilities | 443,640 | 772,358 |
| Net assets: | | |
| Invested in capital assets | 571,687 | 548,653 |
| Unrestricted | 300,402 | 525,093 |
| Total net assets | \$ 872,089 | \$ 1,073,746 |

Summary of Changes in Net Assets

| | Governmental Activities | |
|------------------------------------|--------------------------|----------------------------|
| | <u>3/31/2007</u> | <u>3/31/2006</u> |
| Revenues: | | |
| Program revenues | | |
| Charges for services | \$ 42,822 | \$ 25,286 |
| Operating grants and contributions | 904,761 | 1,609,445 |
| General revenues | | |
| Interest income | 12,757 | 9,231 |
| Tyrone Township - withdraw | | 192,500 |
| Other | <u>3,582</u> | <u>11,207</u> |
| Total revenues | 963,922 | 1,847,669 |
| Expenses for fire protection | <u>1,165,579</u> | <u>1,266,616</u> |
| Increase (decrease) in net assets | (201,657) | 581,053 |
| Beginning net assets | <u>1,073,746</u> | <u>492,693</u> |
| Ending net assets | <u><u>\$ 872,089</u></u> | <u><u>\$ 1,073,746</u></u> |

Financial Analysis of the Authority's Fund

The Authority's General Fund had excess expenditures over revenues of \$242,162 to decrease its beginning fund balance of \$625,553, giving an ending fund balance of \$383,391. This substantial decrease is in large part due to the completed litigation surrounding the withdrawal of Tyrone Township from the Authority. Total direct costs of this litigation is approximately \$115,071 for the year ended March 31, 2007.

General Fund Budgetary Highlights

The original General Fund budget adopted by the Authority was created prior to the beginning of the fiscal year outlining the Authority's anticipated financial operations. An amendment was required from the originally adopted budget to reflect the economic reality of the Authority, and anticipated costs of the aforementioned withdrawal of Tyrone Township from the Authority.

Capital Asset and Debt Administration

The Authority did not purchase or dispose of any capital assts during the fiscal year ended March 31, 2007.

No new debt was incurred by the Authority, but did pay \$170,144 of principal on the outstanding debt held by the Authority. Total long-term debt at March 31, 2007 was \$274,524.

Economic Conditions and Future Activities

Future operations will continue to be funded by contributions from member municipalities. However, since Tyrone Township has terminated its membership effective March 31, 2006 there is some uncertainty as to the financial ramifications this event will cause.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Hartland Deerfield Fire Authority.

BASIC
FINANCIAL
STATEMENTS

GOVERNMENT-WIDE
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD FIRE AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2007

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 243,404 |
| Accounts receivable | |
| Employees | 1,261 |
| Fire runs | 11,410 |
| Tyrone Township | |
| Withdraw | 195,000 |
| Deerfield Township | |
| Start-up | 5,035 |
| Capital assets - net of depreciation | <u>859,619</u> |
| Total assets | <u>1,315,729</u> |
| LIABILITIES | |
| Accounts payable | 24,721 |
| Accrued wages/taxes | 26,579 |
| Accrued vacation and sick time | 10,185 |
| Accrued pension | 6,199 |
| Due to Hartland Township | 5,035 |
| Note payable - Hartland Township | |
| Current | 17,471 |
| Non-current | 65,518 |
| Capital leases payable | |
| Current | 78,926 |
| Non-current | <u>209,006</u> |
| Total liabilities | <u>443,640</u> |
| NET ASSETS | |
| Investment in capital assets, net of related debt | 571,687 |
| Unrestricted | <u>300,402</u> |
| Total net assets | <u>\$ 872,089</u> |

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD FIRE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2007

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expenses) Revenues and Changes in Net Assets</u> |
|-------------------------------|-----------------------|---------------------------------|------------------------------------|--|
| | | <u>Charges for Services</u> | <u>Operating Contributions</u> | |
| Governmental activities: | | | | |
| Fire protection | \$ (1,144,366) | \$ 42,822 | \$ 904,761 | \$ (196,783) |
| Interest on long-term debt | <u>(21,213)</u> | | | <u>(21,213)</u> |
| Total governmental activities | <u>\$ (1,165,579)</u> | <u>\$ 42,822</u> | <u>\$ 904,761</u> | <u>(217,996)</u> |
| General Revenues: | | | | |
| Interest income | | | | 12,757 |
| Other income | | | | <u>3,582</u> |
| Total general revenues | | | | <u>16,339</u> |
| Change in net assets | | | | (201,657) |
| Net assets, April 1, 2006 | | | | <u>1,073,746</u> |
| Net assets, March 31, 2007 | | | | <u>\$ 872,089</u> |

The accompanying notes are an integral part of these financial statements.

FUND
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD FIRE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
MARCH 31, 2007

| | <u>General Fund</u> |
|---|-------------------------|
| <u>ASSETS</u> | |
| ASSETS | |
| Cash | \$ 243,404 |
| Accounts receivable | |
| Employees | 1,261 |
| Fire runs | 11,410 |
| Tyrone Township | |
| Operations | 195,000 |
| Deerfield Township | |
| Start-up | <u>5,035</u> |
| Total assets | \$ <u>456,110</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | |
| LIABILITIES | |
| Accounts payable | \$ 24,721 |
| Accrued wages | 24,690 |
| Accrued vacation and sick time | 10,185 |
| Accrued payroll taxes | 1,889 |
| Accrued pension | 6,199 |
| Due to Hartland Township | <u>5,035</u> |
| Total liabilities | 72,719 |
| FUND BALANCE | |
| Fund balance - undesignated | <u>383,391</u> |
| Total liabilities and fund balance | \$ <u>456,110</u> |

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
MARCH 31, 2007

Amounts reported for governmental activities in the Statement of Net Assets are different because:

| | | |
|--|------------------|-------------------|
| Total fund balance per balance sheet | | \$ 383,391 |
| Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. | | |
| Historical cost | \$ 1,507,481 | |
| Depreciation | <u>(647,862)</u> | |
| Capital assets net of depreciation | | |
| 859,619 | | |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include: | | |
| Note payable - Hartland Township | (82,989) | |
| Capital leases payable | <u>(287,932)</u> | |
| Total | | <u>(370,921)</u> |
| Net assets of governmental activities | | <u>\$ 872,089</u> |

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED MARCH 31, 2007

| | <u>General Fund</u> |
|--|-------------------------|
| REVENUES | |
| Hartland Township – operating contributions | \$ 714,761 |
| Deerfield Township – operating contributions | 190,000 |
| Fire runs | 42,822 |
| Interest income | 12,757 |
| Other revenue | <u>3,582</u> |
| Total revenues | <u>963,922</u> |
| EXPENDITURES | |
| Personnel | 679,547 |
| Employment | 20,809 |
| Administrative services and supplies | 47,079 |
| Contingency | 810 |
| Contractual services | 145,972 |
| Operating supplies | 35,135 |
| Repairs and maintenance | 48,008 |
| Utilities | 30,344 |
| Capital outlay and debt repayment | <u>198,380</u> |
| Total expenditures | <u>1,206,084</u> |
| Net change in fund balance | (242,162) |
| BEGINNING FUND BALANCE, APRIL 1, 2006 | <u>625,553</u> |
| ENDING FUND BALANCE, MARCH 31, 2007 | <u>\$ 383,391</u> |

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2007

Amounts reported for governmental activities in the Statement of Activities are different because:

| | |
|--|--------------|
| Net change in fund balances - governmental funds | \$ (242,162) |
|--|--------------|

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense. The amount by which depreciation exceeded capital outlays is as follows:

| | |
|----------------------|-----------|
| Depreciation expense | (129,639) |
|----------------------|-----------|

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repayment of:

| | | |
|----------------------------------|----------------|----------------|
| Note payable - Hartland Township | \$ 17,471 | |
| Capital leases payable | <u>152,673</u> | |
| Total | | <u>170,144</u> |

| | |
|---|---------------------|
| Change in net assets of governmental activities | \$ <u>(201,657)</u> |
|---|---------------------|

The accompanying notes are an integral part of these financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Hartland Deerfield Fire Authority was organized under Public Act No. 57, of the Public Acts of 1988, as amended in December of 2001 on April 18, 2003. The Authority approved a fiscal year-end date of March 31. The purpose of the Authority is to provide fire protection and other emergency health and safety services. The incorporating municipalities are Hartland Township and Deerfield Township with each municipality being represented by two members and an appointed citizen member at large.

The five board members appoint its own officers which are the chairperson, vice chairperson and secretary/treasurer, as well as select two additional non-voting and non-member individuals for the positions of assistant secretary and assistant treasurer.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements. The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Authority reports only one fund, the General Fund.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues, (including motor vehicle license fees), charges for services, fines forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. BUDGETS

The Authority is required to prepare a proposed annual budget reflecting projected revenues and expenditures of the Authority for the next fiscal year beginning April 1. The proposed budget is presented for the budget meeting in December of the year prior to the end of the fiscal year. The Authority board is then required to submit the proposed budget to the incorporating Municipalities no later than January 1st of each year. After approval of the proposed budget of a two-thirds majority of the incorporating Municipalities, the Authority Board gives final approval to the Authority budget for the next fiscal year. The budget may be adjusted from time to time upon approval by the Authority Board with a two-thirds majority vote.

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

H. ACCRUED COMPENSATED ABSENCES

The Authority has recorded a liability for compensated absences of the fire department. The policies regarding compensated absences are outlined in the Authority's "Rules of Employment".

I. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and investments held with maturities of three months or less to be cash equivalents.

J. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2007 was as follows:

| | Balances 4-01-06 | Additions | Deletions | Balances 3-31-07 |
|--|---------------------|---------------------|-----------|---------------------|
| Operating equipment | \$ 89,150 | \$ | \$ | \$ 89,150 |
| Transportation equipment | <u>1,418,331</u> | <u></u> | <u></u> | <u>1,418,331</u> |
| | 1,507,481 | | | 1,507,481 |
| Accumulated depreciation | <u>(518,223)</u> | <u>(129,639)</u> | <u></u> | <u>(647,862)</u> |
| Governmental activities capital assets, net | <u>\$ 989,258</u> | <u>\$ (129,639)</u> | <u>\$</u> | <u>\$ 859,619</u> |

Depreciation expense is being recorded solely for fire protection services. The Authority utilizes the straight line method to depreciate capital assets over their estimated useful lives. There is \$287,932 of debt associated with the transportation equipment.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

| <u>Deposits</u> | Carrying Amount | Bank Balance |
|--------------------------------|--------------------|-------------------|
| Insured | \$ 100,000 | \$ 100,000 |
| Uninsured and uncollateralized | <u>143,304</u> | <u>158,027</u> |
| | <u>\$ 243,304</u> | <u>\$ 258,027</u> |

The Authority maintains an imprest petty cash fund of \$100.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 4 - LEASE AGREEMENT

The Authority has a signed lease agreement with Hartland Township to lease the fire hall located at 3205 Hartland Road #61 and the sub-station located at 5965 Old US 23 #62 for \$1 per year for 10 years effective October 1, 2003.

NOTE 5 - LONG-TERM DEBT

The following is a summary of long-term debt activity for the Authority:

| | Balances 4-01-06 | Additions | Deletions | Balances 3-31-07 |
|---|---------------------|-----------|-------------------|---------------------|
| CAPITAL LEASES | | | | |
| Oshkosh Capital - 2003 Pierce | \$ 76,461 | \$ | \$ 76,461 | \$ |
| GMAC - 2 trucks | 33,516 | | 15,764 | 17,752 |
| Oshkosh Capital - 2004 Pierce | <u>330,628</u> | | <u>60,448</u> | <u>270,180</u> |
| Total capital leases | 440,605 | | 152,673 | 287,932 |
| NOTE PAYABLE - HARTLAND TOWNSHIP | | | | |
| SCBA equipment | <u>100,460</u> | | <u>17,471</u> | <u>82,989</u> |
| Total debt | <u>\$ 541,065</u> | <u>\$</u> | <u>\$ 170,144</u> | <u>\$ 370,921</u> |

CAPITAL LEASES

1. Oshkosh Capital - 2003 Pierce - As part of the asset transfer agreement between the Authority and Hartland Township, the Authority took over the capital lease debt originally assigned to Hartland Township at the net present value of \$221,525. Interest is charged at 3.59% per annum. The Authority is making annual payments of \$79,206 until maturity in May 2007.
2. GMAC - 2 trucks - As part of the asset transfer agreement between the Authority and Hartland Township, the Authority took over two loans with GMAC originally assigned to Hartland Township at the net present value of \$72,250. The loans were financed with no interest. The monthly payment amounts are \$639.01 and \$674.63 for a 2003 pick-up truck and 2003 C2500 truck respectively until their maturity in March 2009.
3. Oshkosh Capital - 2004 Pierce - The Authority entered into a capital lease to purchase a 2004 pumper. The Authority is responsible for annual payments of \$75,293.25 which includes interest of 4.49%. The maturity date is March 31, 2011.

NOTE PAYABLE

1. The Authority issued a note payable on October 15, 2004 to Hartland Township to purchase SCBA equipment totaling \$122,300. The loan requires quarterly payments of \$4,367.86 plus 1.75% interest of the unpaid balance until maturity in the year ended March 31, 2012.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 5 - GENERAL LONG-TERM DEBT- (continued)

The following schedule details future debt outflows of the Authority:

| <u>Date of Payment</u> | <u>CAPITAL LEASES</u> | | |
|------------------------|-----------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 3/31/2008 | \$ 78,926 | \$ 12,131 | \$ 91,057 |
| 3/31/2009 | 67,986 | 9,295 | 77,281 |
| 3/31/2010 | 68,961 | 6,331 | 75,292 |
| 3/31/2011 | <u>72,059</u> | <u>3,234</u> | <u>75,293</u> |
| Totals | <u>\$ 287,932</u> | <u>\$ 30,991</u> | <u>\$ 318,923</u> |

| <u>Date of Payment</u> | <u>NOTE PAYABLE - HARTLAND TOWNSHIP</u> | | |
|------------------------|---|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 3/31/2008 | \$ 17,471 | \$ 1,338 | \$ 18,809 |
| 3/31/2009 | 17,471 | 1,032 | 18,503 |
| 3/31/2010 | 17,471 | 726 | 18,197 |
| 3/31/2011 | 17,471 | 420 | 17,891 |
| 3/31/2012 | <u>13,105</u> | <u>115</u> | <u>13,220</u> |
| Totals | <u>\$ 82,989</u> | <u>\$ 3,631</u> | <u>\$ 86,620</u> |

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 6 - DEFINED BENEFIT PLAN -
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)

The Authority provides a defined benefit pension plan under MERS. MERS is an agent multiple-employer; state-wide, defined benefit public employee retirement plan created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. Under Public Act 220, MERS became an independent public non-profit corporation independent from State government. The effective date of independence was August 16, 1996, at which time MERS ceased to be a part of the State of Michigan, Department of Management and Budget.

As of March 31, 2007 the Authority had four covered employees and 45 total employees. Covered and total payrolls for the year then ended was \$208,086 and \$536,879 respectively. Currently there are no retirants receiving benefits from the plan. Total contributions made to the plan during the year ended was \$27,052.

At December 31, 2006, the unfunded pension liability was \$26,024, determined as follows:

Actuarial Accrued Liability

| | |
|--|------------------|
| Retirees and beneficiaries currently receiving benefits | \$ |
| Terminated employees not yet receiving benefits | |
| Current employees - Accumulated employee contributions including allocated investment income | |
| Employer financed | <u>107,911</u> |
| Total actuarial accrued liability | 107,911 |
| Net assets available for benefits at actuarial value | <u>81,887</u> |
| Unfunded actuarial accrued liability | <u>\$ 26,024</u> |

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 6 - DEFINED BENEFIT PLAN -

MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) – (continued)

The combined change in the pension benefit resulting from benefit changes, if any, and revisions in actuarial assumptions is 0.054719.

Analysis of Funding Progress

| Valuation Date <u>December 31</u> | Net Assets Available for <u>Benefits</u> | Pension Benefit Obligation <u>(PBO)</u> | Percent Funded <u>(1)/(2)</u> | Unfunded (Over funded) PBO <u>(2)-(1)</u> | Annual Covered Payroll | Unfunded PBO as a % of Covered Payroll |
|---|---|--|-------------------------------------|--|------------------------------|---|
| 2004 | 22,499 | 26,986 | 83% | 4,487 | 190,021 | 2% |
| 2005 | 51,287 | 63,563 | 81% | 12,276 | 200,627 | 6% |
| 2006 | 81,887 | 107,911 | 76% | 26,024 | 207,128 | 13% |

Actuarial data beyond December 31, 2006 was not available as of the writing of this report.

NOTE 7 - EMPLOYEE RETIREMENT PLAN

The Authority participates in the ING Financial Defined Contribution Pension Plan Group No. 89571 for Michigan Authority employees. This is a single-employer plan. Substantially all full-time employees are included in the plan. Six months of service is required to determine eligibility. The Authority contributes 5% of participant's compensation, while an employee may contribute 1% to 25% of compensation after tax. Annual compensation used to determine the current year contribution is as of April 1, preceding the year. Contribution information is as follows:

| | |
|---|-----------------|
| TOTAL CURRENT YEAR EMPLOYER CONTRIBUTIONS | <u>\$14,374</u> |
|---|-----------------|

| | |
|---|-----------------|
| TOTAL CURRENT YEAR EMPLOYEE CONTRIBUTIONS | <u>\$ 7,428</u> |
|---|-----------------|

These balances reflect contributions for the period from April 1, 2006 to March 31, 2007.

NOTE 8 - NOTE RECEIVABLE - SETTLEMENT WITH TYRONE TOWNSHIP

Tyrone Township withdrew from the Authority effective March 31, 2006. After mediation the remaining Authority members (Hartland and Deerfield Townships) and Tyrone Township came to an agreement regarding the settlement amount between both parties. The agreement calls for Tyrone Township to pay \$325,000 to the Authority as \$130,000 down and five equal annual installments of \$39,000 with no interest. The down payment of \$130,000 was paid prior to March 31, 2007 and a note receivable for \$195,000 was set-up for the remaining amount.

The Authority's net loss amounted to \$465,315 of bad accounts receivable from Tyrone Township plus legal fees of \$68,756 for a total loss due to Tyrone's withdrawal of \$115,071.

REQUIRED
SUPPLEMENTARY
INFORMATION

HARTLAND DEERFIELD FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007

| | Budgets | | | Variance with Final Budget Favorable (Unfavorable) |
|--------------------------------------|------------|------------|------------|--|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Hartland Township - contributions | \$ 714,761 | \$ 714,761 | \$ 714,761 | \$ |
| Deerfield Township - contributions | 190,000 | 190,000 | 190,000 | |
| Fire runs | 19,246 | 19,246 | 42,822 | 23,576 |
| Interest income | 1,200 | 1,200 | 12,757 | 11,557 |
| Other revenue | 32,000 | 32,000 | 3,582 | (28,418) |
| Total revenues | 957,207 | 957,207 | 963,922 | 6,715 |
| EXPENDITURES | | | | |
| Personnel | 654,436 | 654,436 | 679,547 | (25,111) |
| Employment | 29,500 | 29,500 | 20,809 | 8,691 |
| Administrative services and supplies | 44,250 | 44,250 | 47,079 | (2,829) |
| Contingency | 5,000 | 5,000 | 810 | 4,190 |
| Contractual services | 50,000 | 152,500 | 145,972 | 6,528 |
| Operating supplies | 49,553 | 49,553 | 35,135 | 14,418 |
| Repairs and maintenance | 42,850 | 42,850 | 48,008 | (5,158) |
| Utilities | 35,240 | 35,240 | 30,344 | 4,896 |
| Capital outlay and debt repayment | 196,378 | 196,378 | 198,380 | (2,002) |
| Total expenditures | 1,107,207 | 1,209,707 | 1,206,084 | 3,623 |
| Net change in fund balance | (150,000) | (252,500) | (242,162) | 10,338 |
| BEGINNING FUND BALANCE | 625,553 | 625,553 | 625,553 | |
| ENDING FUND BALANCE | \$ 475,553 | \$ 373,053 | \$ 383,391 | \$ 10,338 |

HARTLAND DEERFIELD FIRE AUTHORITY
SCHEDULES OF PENSION FUNDING PROGRESS (UNAUDITED)
FOR THE YEAR ENDED MARCH 31, 2007

In accordance with the Governmental Accounting Standards Board Statements No. 25 and 27, the following information is a required part of the basic financial statements.

FIRE EMPLOYEES

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded (Over funded) Accrued Liability (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---------------------------------|--|--|--|-------------------------|----------------------------|--|
| December 31, 2004 | \$ 22,499 | \$ 26,986 | \$ 4,487 | 83.37% | \$ 190,021 | 2.36% |
| December 31, 2005 | \$ 51,287 | \$ 63,563 | \$ 12,276 | 80.69% | \$ 200,627 | 6.12% |
| December 31, 2006 | \$ 81,887 | \$ 107,911 | \$ 26,024 | 75.88% | \$ 207,128 | 12.56% |

SUPPLEMENTARY
INFORMATION

HARTLAND DEERFIELD FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--------------------------------------|-------------------|-------------------|--|
| REVENUES | | | |
| Hartland Township - contributions | \$ 714,761 | \$ 714,761 | \$ |
| Deerfield Township - contributions | 190,000 | 190,000 | |
| Fire runs | 19,246 | 42,822 | 23,576 |
| Interest income | 1,200 | 12,757 | 11,557 |
| Other revenue | <u>32,000</u> | <u>3,582</u> | <u>(28,418)</u> |
| Total revenues | <u>957,207</u> | <u>963,922</u> | <u>6,715</u> |
| EXPENDITURES | | | |
| Personnel | 654,436 | 679,547 | (25,111) |
| Employment | 29,500 | 20,809 | 8,691 |
| Administrative services and supplies | 44,250 | 47,079 | (2,829) |
| Contingency | 5,000 | 810 | 4,190 |
| Contractual services | 152,500 | 145,972 | 6,528 |
| Operating supplies | 49,553 | 35,135 | 14,418 |
| Repairs and maintenance | 42,850 | 48,008 | (5,158) |
| Utilities | 35,240 | 30,344 | 4,896 |
| Capital outlay and debt repayment | <u>196,378</u> | <u>198,380</u> | <u>(2,002)</u> |
| Total expenditures | <u>1,209,707</u> | <u>1,206,084</u> | <u>3,623</u> |
| Net change in fund balance | (252,500) | (242,162) | 10,338 |
| BEGINNING FUND BALANCE | <u>625,553</u> | <u>625,553</u> | |
| ENDING FUND BALANCE | <u>\$ 373,053</u> | <u>\$ 383,391</u> | <u>\$ 10,338</u> |

HARTLAND DEERFIELD FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---|----------------|----------------|--|
| PERSONNEL | | | |
| Chief wages | \$ | \$ 77,700 | \$ |
| Scheduled employee wages | | 129,696 | |
| Scheduled employee - overtime wages | | 901 | |
| On-call employees' wages | | 324,136 | |
| Per diems - fire board wages | | 7,275 | |
| Payroll taxes | | 42,285 | |
| Medical insurance | | 14,022 | |
| Disability - life insurance | | 12,365 | |
| Workers compensation insurance | | 29,741 | |
| Retirement (MERS and deferred compensation) | | 41,426 | |
| | <u>654,436</u> | <u>679,547</u> | <u>(25,111)</u> |
| Total personnel | | | |
| EMPLOYMENT | | | |
| Uniforms and clothing allowance | | 1,993 | |
| Physicals and medical expense | | 11,308 | |
| Education and training | | 7,508 | |
| | <u>29,500</u> | <u>20,809</u> | <u>8,691</u> |
| Total employment | | | |
| ADMINISTRATIVE SERVICES AND SUPPLIES | | | |
| Office supplies | | 2,490 | |
| Furniture | | 776 | |
| Postage | | 348 | |
| Computers and software | | 3,403 | |
| Dues and membership | | 724 | |
| Telephone | | 9,928 | |
| Printing and publishing | | 1,072 | |
| Liability insurance | | 27,938 | |
| Bank fees | | 400 | |
| | <u>44,250</u> | <u>47,079</u> | <u>(2,829)</u> |
| Total administrative services and supplies | | | |
| CONTINGENCY | | | |
| Claims/damages | <u>5,000</u> | <u>810</u> | <u>4,190</u> |

HARTLAND DEERFIELD FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED MARCH 31, 2007

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|-----------------------------------|---------------------|---------------------|--|
| CONTRACTUAL SERVICES | | | |
| Grounds maintenance | | 12,441 | |
| Accounting | | 4,700 | |
| Computer | | 3,710 | |
| Auditing services | | 7,950 | |
| Tyrone Township withdrawal | | 46,315 | |
| Attorney fees | | 70,856 | |
| | <u>152,500</u> | <u>145,972</u> | <u>6,528</u> |
| Total contractual services | | | |
| OPERATING SUPPLIES | | | |
| Uniforms and protective clothing | | 3,759 | |
| Employee support | | 781 | |
| Janitorial | | 2,334 | |
| Fire prevention | | 899 | |
| Operating supplies | | 2,936 | |
| Tools | | 574 | |
| Small equipment | | 3,155 | |
| Medical supplies | | 2,700 | |
| Foam | | 1,418 | |
| Radio equipment | | 462 | |
| Fuel | | 16,117 | |
| | <u>49,553</u> | <u>35,135</u> | <u>14,418</u> |
| Total operating supplies | | | |
| REPAIRS AND MAINTENANCE | | | |
| Equipment repairs | | 5,357 | |
| Vehicle repairs | | 39,096 | |
| Building repairs | | 2,025 | |
| Radios - repairs | | 72 | |
| Administrative supplies - repairs | | 1,458 | |
| | <u>42,850</u> | <u>48,008</u> | <u>(5,158)</u> |
| Total repairs and maintenance | | | |
| UTILITIES | | | |
| Gas | | 13,649 | |
| Electricity | | 15,408 | |
| Sewer | | 809 | |
| Water | | 478 | |
| | <u>35,240</u> | <u>30,344</u> | <u>4,896</u> |
| Total utilities | | | |
| CAPITAL OUTLAY | | | |
| Equipment - operating | | 7,022 | |
| Debt service - principle | | 170,144 | |
| Debt service - interest | | 21,214 | |
| | <u>196,378</u> | <u>198,380</u> | <u>(2,002)</u> |
| Total capital outlay | | | |
| Total expenditures | <u>\$ 1,209,707</u> | <u>\$ 1,206,084</u> | <u>\$ 3,623</u> |

HARTLAND DEERFIELD
FIRE AUTHORITY

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED MARCH 31, 2007



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
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FAX (810) 229-5578

August 23, 2007

Board of Trustees
Hartland Deerfield Fire Authority
3205 Hartland Road
Hartland, Michigan 48353

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of Hartland Deerfield Fire Authority for the year ended March 31, 2007, we considered the Authority's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. Those matters are as follows:

1. COMMENT

Deposits are not consistently made timely.

RECOMMENDATION

All deposits should be made regularly by an authorized and bonded individual to ensure the safe guarding of assets.

2. COMMENT

We noted while reviewing vendor payments several invoices paid during the year could not be found in the vendor files.

RECOMMENDATION

In the future better safeguarding of paid invoices should be done.

3. COMMENT

The Fire Chief's contract stipulates that \$15,000 of pension funds will be invested by the Authority annually in either the MERS plan or the John Hancock defined contribution plan. A fixed percentage of compensation is being utilized to contribute to these plans, but appears to be short of the agreed amounts.

RECOMMENDATION

The Authority should evaluate the contributions made on behalf of the Fire Chief, and adjust accordingly.

4. COMMENT

A cashier's check was purchased/utilized to pay a vendor invoice. This action circumvents the existing internal control structure of requiring two signatures for vendor payments.

RECOMMENDATION

The Authority should put procedures into place to ensure the internal control structure is adhered to in order to safeguard its assets.

5. COMMENT

We noticed the bank reconciliations are not being performed on a monthly basis.

RECOMMENDATION

Bank reconciliations must be performed on a monthly basis. This is also a State of Michigan accounting requirement.

6. COMMENT

The Authority had signed an agreement with a subdivision association to provide fire protection services. It appears the annual fee was not fully paid for the fiscal year ended March 31, 2007. The amount owed is \$8,215, which was recorded as a receivable.

We also noted per the agreement the fee is based on a number of parcels with homes/vacant with two different rates. The agreement does not specifically state the day of each new year the number of parcels will be calculated. The annual fee did not change from the previous fiscal year. Thus, the Authority may be undercharging the association.

RECOMMENDATION

The Authority should invoice the association for the amount still due for the year ended March 31, 2007.

The Authority should also consult with its attorney to review the verbiage of the signed agreement regarding the calculation/dates as to the number of parcels used for fee purposes.

7. COMMENT

A late payment of \$1,980 was paid during the fiscal year in which the vendor stated that it would waive the late fee. Also, penalties totaling \$1,581 were assessed during the year for payroll discrepancies as well.

RECOMMENDATION

The Authority should see to have this late payment refunded, and review procedures so these activities don't occur again.

8. COMMENT

There are several outstanding checks from previous fiscal years.

RECOMMENDATION

The Authority should reissue these checks or take appropriate steps to remove them from the bank reconciliations.

This letter does not affect our report dated August 23, 2007 on the financial statements of Hartland Deerfield Fire Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of Hartland Deerfield Fire Authority.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants